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SIPDIS

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TAGS: ECON ETRD EINV EAGR ET
SUBJECT: PARLIAMENT PASSES 2008/09 FEDERAL BUDGET

¶1. (SBU) SUMMARY. The Ethiopian Parliament passed a federal budget of US$5.6 billion for 2008/09 fiscal year that runs from July 8, 2008 to July 7, 2009. The budget is 16 percent higher than the US$4.9 billion budget endorsed last year. Given that annual general inflation in June 2008 was 55.3 percent the 16 percent nominal increase in the budget reflects a fiscal tightening in real terms. The recurrent budget, constituting 57 percent of the total budget, grew by 15.6 percent vis-a-vis its level last year. Federal subsidies to regional states -- accounting for over 56 percent of the recurrent budget or 32.1 percent of the total budget -- increased by 14.8 percent. The national defense budget, constituting close to 13 percent of recurrent budget, increased by $50 million or 7.3 percent to $416 million. Meanwhile, the capital expenditure budget items showed a 16.6 percent annual growth, largely allotted to economic and social developments. More than 93 percent of the capital budget or over 40 percent of the total budget constituted pro-poor spending such as agriculture, irrigation and natural resources development, education and training, road construction, rural electrification and expansion of health services. The government plans to finance 60 percent of the budget from domestic revenue, 25 percent from external assistance -- including $700 million or 12.4 percent from the World Bank-supported Protecting Basic Services program -- and the balance from foreign and domestic borrowing. The government explained that the principal objectives of the budget are to reduce the impacts of inflation, ensure food security, and enhance development efforts. Members of opposition political parties voiced their concerns on the budget but the latter passed by a majority vote. End Summary.

THE BUDGET IN BRIEF

¶2. Ethiopia's 2008/09 federal budget totals US$5.6 billion, indicating 16 percent higher than that of 2007/08 and 24 percent vis-a-vis that of 2006/07 in nominal terms. Given that general annual inflation reached 55.3 percent in June 2008, the real growth in the budget is negative. The budget does not include regional government budgets from their own revenues, state enterprise budgets, or off-budget donor contributions. The budget includes capital expenditure of US$2.4 billion and a recurrent budget of US$3.2 billion, including subsidies to the regional states of US$1.8 billion. Major capital budget items include construction sector $796 million ($758 million for road construction), food security, agriculture and rural development related $516 million, education and training $506 million, health services $188 million and water resource development $178 million. Major sources of funding for the capital budget are the government's central treasury (60 percent), foreign assistance (25 percent), loans (14 percent) and the balance from retained revenue.

¶3. The recurrent budget is US$3.2 billion, up by 15.6 percent compared to its level last year. Major spending items include subsides to regional states at $1,813 million (a 14.8 percent increase), administration and general services at US$585 million (a 11.2 percent increase) of which national defense at $416 million (a

$50 million or 7.3 percent increase), education and training at $200 million (up from $157 million last year), and debt servicing at $344 million (in contrast to $257 million last year). Debt servicing is broken up into 73 percent servicing domestic debt and 27 percent to repay foreign debt. 96 percent of the recurrent budget is planned to be financed from the central treasury account while the balance from retained revenue.

¶4. Total domestic revenue is projected at US$3.3 billion, an increase of 19.4 percent from last year. Tax revenue accounts for $2.6 billion while non-tax revenue is planned to reach $673 million. Non-tax revenue includes licensing fees, service charges, residual surplus payables from government investments, interest income, capital gains and others. Planned foreign budget assistance includes US$479 million from multilateral organizations, US$209 million from bilateral sources, US$700 million from the World Bank-supported Protecting Basic Services project, and US$17 million from HIPC (Highly Indebted Poor Countries) debt relief. (Note: After the contentious 2005 national election, many budget support donors shifted from direct budget support to block grants to regional governments under the World Bank-championed Protecting Basic Services program. End Note). The deficit is planned to be financed by foreign and domestic borrowings. Foreign loans constitute $349 million from multilateral donors and $20 million from bilateral deals. Net domestic borrowing of the government is expected to be equivalent to US$533 million.

ISSUES RAISED BY OPPOSITION

¶5. Finance Minister Sufian Ahmed presented the proposed budget to the House of Peoples Representatives on July 4 and 5, 2008. Sufian argued that the principal objectives of the budget are combating inflation and its impact, improving peoples' health, education and enhancing further development efforts. Opposition MP Temesgen Zewde proposed re-allocating $10 million from intelligence and security budget to augment efforts geared towards abating inflation. Bulcha Demeksa from OFDM questioned the need to increase the defense budget by $50 million, arguing that the proposed increase be re-allocated to rehabilitate drought affected citizens. Lidetu Ayalew from UEDP-Medhin disputed the government's 26 percent food inflation figure as unrealistically low, proposing a squeeze in the capital budget to tighten money supply to combat inflation.

¶6. Sufian argued the increase in the defense budget is required to increase salaries and accommodate inflation within the military budget. He also noted that the increase in federal police budget is due to the planned recruitment of 3,000 policemen. Prime Minster Meles said "the primary agenda of the government is to control and reduce the impact of inflation on the economy and further enhancing development efforts." He further noted "the increase in budget on the various sectors would reduce the impact of inflation and curb the rising cost of living of the people." Meles argued that combating inflation is the only area where his government has failed to accomplish its objective. Despite the motions voiced by the opposition, the budget passed as proposed by majority votes.

THE BUDGET AT A GLANCE

	2008/09 Budget (USD millions)	Increase from 2007/08 (percent)
Total Budget:	5,643.5	16.0
Recurrent Budget:	3,206.7	15.6
o/w Subsidies to Regions:	1,813.1	14.8
Administration:	169.4	(12.0)
Defense:	415.9	7.3
Debt Servicing:	344.1	33.9
Capital Expenses:	2,439.6	16.6
o/w Construction:	796.0	21.9

Food Security, Agriculture, and Rural Development:	516.0	5.5
Education:	506.6	45.6
Health:	188.0	0.0
Water Resources:	178.0	19.5
Total Planned Revenues:	3,336.9	19.4
Taxes:	2,642.4	17.5
Non-Tax Income:	672.9	48.6
Multi-lateral Budget Support:	478.8	24.3
o/w from PBS:	699.9	31.9
Bilateral Budget Support:	209.0	9.7
Domestic Borrowing:	533.1	(0.4)
Foreign Borrowing:	368.7	15.2
HIPC:	17.1	(47.1)

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